



Financial Action Task Force (FATF)

For Prelims: FATF, Grey List, Black List, G7, OECD, European Commission, Gulf Cooperation Council, India's initiatives to counter ML/TF and WMD.

For Mains: Money Laundering, India and its neighbourhood, Important international institutions

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FATF



What is the FATF?

▪ About:

- FATF is the global **money laundering** and **terrorist financing watchdog** set up in 1989 out of a **G-7 meeting** of developed nations in **Paris**.

▪ Objective:

- **Initially, its objective was to examine and develop measures to combat money laundering.**
- After the **9/11 attacks** on the US, the FATF in 2001 **expanded its mandate to incorporate efforts to combat terrorist financing.**
- In April 2012, it added efforts to **counter the financing of proliferation of [Weapons of Mass Destruction \(WMD\)](#).**

▪ FATF Recommendations:

- In April 1990, less than one year after its creation, the FATF issued a report containing a set of **Forty Recommendations** intended to provide a comprehensive plan of action needed to fight against money laundering.
 - In 2004, the FATF published a Ninth Special Recommendations, further

strengthening the agreed international standards for combating money laundering and terrorist financing - the **40+9 Recommendations**.

- In 2012, the FATF revised its recommendations and expanded them to deal with new threats such as the financing of proliferation of WMD.
- Over 200 jurisdictions around the world have committed to the FATF Recommendations through the global network of **nine FATF-Style Regional Bodies (FSRBs) and FATF memberships**.
- **FATF Sessions:**
 - The **FATF Plenary** is the **decision making body of the FATF**.
 - It meets **three times per year**.

Who are the Members and Observers of FATF?

- **Members:**
 - As of today, it is a 39-member body **representing most major financial centres in all parts of the globe**.
 - Out of 39 members, there are two regional organisations: the [European Commission](#), and the [Gulf Cooperation Council](#),
 - Countries that are the members of FATF Include:
 - Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Hong Kong (China), Iceland, India, Ireland, Israel, Italy, Japan, Republic of Korea, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Portugal, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Türkiye, the UK and the US.
- **India and FATF:** India joined with 'observer' status in 2006 and became a full member of FATF in 2010.
 - India is also a member of its regional partners, the [Asia Pacific Group \(APG\)](#) and the **Eurasian Group (EAG)**.
- **Observers:**
 - **Indonesia** is the only observer country of FATF.
 - Some important organisations that have observer status with the FATF include:
 - [Asian Development Bank \(ADB\)](#)
 - [International Monetary Fund \(IMF\)](#)
 - [International Organisation of Securities Commissions \(IOSCO\)](#)
 - [Interpol](#)
 - [Organisation for Economic Co-operation and Development \(OECD\)](#)
 - [United Nations Office on Drugs and Crime \(UNODC\)](#)
 - [United Nations Counter-Terrorism Committee Executive Directorate \(UNCTED\)](#)
 - [World Bank](#)
 - [World Customs Organisation \(WCO\)](#)

Who is the FATF President?

- The FATF President is a **senior official appointed by the FATF Plenary** from among its members.
 - S/He **convenes and chairs the meetings of the FATF Plenary** and the Steering Group, and **oversees the FATF Secretariat**.
 - S/He is the **principal spokesperson** for the FATF and **represents the FATF externally**.
- The term of the President begins on 1 July and ends on 30 June **two years** after assuming office.
 - **T. Raja Kumar (Singapore)** is the incumbent President of FATF who assumed the office in July 2022.

What is the FATF Secretariat?

- The FATF Secretariat is located at the **OECD headquarters in Paris**.
- The Secretariat supports the substantive work of the FATF membership and global network.
- The **funding for the FATF Secretariat** and other services is **provided by the FATF annual**

budget to which members contribute.

What are the Grey and Black Lists of the FATF?

- **About:** The FATF Plenary meets **tri-annually** - in **February, June and October**, to take stock of **“Mutual Evaluation Reports” (MERs)** of the countries it reviews.
 - If a country appears to have major deficiencies in its AML/CFT regime, it is put on a list of **“jurisdictions under increased monitoring” - “grey list”** and if it fails to address FATF concerns, it is put on a **“high-risk jurisdictions” list - “black list”**.
 - AML/CFT refers to **“Anti-Money Laundering/Combating the Financing of Terrorism”**.
 - **To be pulled out of the grey list**, a country has to fulfill the tasks recommended by the FATF, for instance, confiscating properties of individuals associated with terrorist groups.
 - If the FATF is satisfied with the progress, it removes the country from the list.
- **Grey List:** The Grey List includes countries that are **considered safe haven for supporting terror funding and money laundering**.
 - It serves as a warning that the country may enter the blacklist.
- **Black List:** The Black List includes **Non-Cooperative Countries or Territories (NCCTs)** that support terror funding and money laundering activities.
 - As of now, **Iran, North Korea and Myanmar** are the three black listed countries.
 - Myanmar has been recently added to the list due to actions by the military leadership after the **2021 coup**.
- **Consequences of Being Enlisted in FATF Lists:** The enlisted countries are subjected to:
 - **Economic sanctions** from financial institutions affiliated with FATF (IMF, World Bank, ADB etc.)
 - **Problem in getting loans** from such financial institutions and countries
 - **Reductions in international trade**
 - **International boycott**
- **India, Pakistan and FATF GreyListing:** Recently, the **FATF removed Pakistan from the grey list** lauding “Pakistan’s significant progress”.
 - The country was **removed from the list after four years**. It was **first put on the list in 2008**, removed in 2009 and before adding it again in **2018**, it remained under increased monitoring from **2012 to 2015**.
 - **India agreed to the decision** to take Pakistan off the list, as the latter had **submitted “documentary evidence”** of its actions against designated terrorists.
 - Being removed from the grey list, Pakistan essentially **received a reputational boost** and a clean bill of health from the international community on terrorist financing.

What are the Issues Associated with FATF?

- The challenges associated with the **adoption and implementation of FATF codes** in member states include:
 - **Difficulty in domestic coordination**
 - **Capacity constraints of countries**
 - **Inadequate operational resources**
 - **Assessment complexities** in the implementation of FATF standards
- The challenges associated with the **implementation of new technologies for AML/CFT** include:
 - **Poor understanding of ML/TF** (Money Laundering /Terror Funding) threats and risks.
 - **Inability to adequately identify, assess and mitigate ML/FT risks**.
 - Traditional risk assessment tools do not allow data to be analysed at a large scale, **limiting the potential for correlations and analysis** to generate a more fine-grained picture of the risks.
- The **other factors that encourage ML/TF** include:
 - **Lack of coordination** between international organisations and the huge burden of legislations created
 - **Weaknesses in national regulatory schemes**
 - **Informal transfer and movements of assets** across national boundaries
 - **High costs of implementing the risk approach** for private non-state actors (financial and non-financial institutions)

What can be Done to Strengthen FATF?

- **Risk Assessment:** The **risk-based approach should be the cornerstone** of an effective AML/CFT system, and is essential to properly managing risks. A **robust knowledge and awareness of risks**, which allows for the **capacity to mitigate and address risks** proportionately is crucial to the effective implementation of FATF Standards.
- **Data Sharing:** A **greater capacity to collect and process data, as well as share it among stakeholders**, could offer significant advantages in combating ML/TF.
- **Application of Modern Technology:** The **application of machine learning and other Artificial Intelligence based tools** which allow for **real time, quick and more accurate data analysis** may offer the solution to the above-mentioned issues.

What Other Initiatives have been Taken to Deter Financial Crimes?

- **Money Laundering:**
 - **Global:**
 - **Vienna Convention 1988:** Creates an obligation for signatory states to criminalise the laundering of money from drug trafficking.
 - **India is a signatory to this convention.**
 - **G-10's Basel Committee Statement of Principles:** Issued a "statement of principles" with which the international banks of member states are expected to comply.
 - **India with RBI as its institutional representative** is a member of the Basel Committee.
 - **IOSCO:** Encourages its members to take necessary steps to combat Money Laundering in securities and futures markets.
 - **India is a member** of IOSCO board.
 - **UN Office on Drugs and Crime (UNODC):** Proactively tries to identify and stop Money Laundering.
 - India is a member of UNODC.
 - **Palermo Convention 2003:** Formally known as United Nations Convention against Transnational Organised Crime (UNTOC), it compels ratifying countries to criminalise ML via domestic law and to consider all serious crimes as ML predicate offences.
 - Establishes regulatory regimes to deter and detect all forms of ML.
 - **India joined UNTOC in 2002 and ratified it in 2011.**
 - **India:**
 - **Prevention of Money-Laundering Act, 2002 (PMLA):** Forms the core of the legal framework put in place by India to combat Money Laundering. It was last amended in 2012.
 - **Financial Intelligence Unit-IND:** Independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.
 - **Directorate of Enforcement (ED):** A law enforcement agency and economic intelligence agency responsible for enforcing economic laws and fighting economic crime in India.
 - One of the main functions of ED is to Investigate offences of ML.
- **Terrorist Financing:**
 - **Global:**
 - **IMF:** It has pressed its 189 member countries to comply with international standards to thwart terrorist financing.
 - **Comprehensive Convention on International Terrorism (CCIT):** Its major objectives included having a universal definition of terrorism so that all the UNGA members can adopt it into their own criminal law, banning all terror groups, prosecuting all terrorists under special laws and making cross-border terrorism an extraditable offense worldwide.
 - CCIT was **proposed by India in 1996.**
 - **International Counter Terrorism Conference 2022:** It was organised by the Global Counter Terrorism Council (GCTC).
 - **India:**

- [Unlawful Activities \(Prevention\) Amendment Act](#) is the primary anti- terrorism law in force in India.
- [India's Annual Resolution on Counter-Terror](#) was adopted by consensus in the First Committee of the UNGA.
- The [National Security Guard \(NSG\)](#) is a paramilitary force that is primarily responsible for counterterrorism and anti-hijacking operations.
- **Proliferation of Weapons of Mass Destruction:**
 - **Global:**
 - Efforts to control the spread of WMD are enshrined in international agreements such as the [Nuclear Non-proliferation Treaty](#) of 1968, the [Biological Weapons Convention of 1972](#), and the [Chemical Weapons Convention of 1993](#).
 - **India is not a signatory** to the Nuclear Non-proliferation Treaty of 1968.
 - **India:**
 - India has enacted an act to prohibit unlawful activities, in relation to weapons of mass destruction and their delivery systems which is known as **The Weapons of Mass Destruction and Their Delivery Systems (Prohibition of unlawful activities) Act, 2005**.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

Q. Discuss how emerging technologies and globalisation contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. **(2021)**

Q. Analyse the complexity and intensity of terrorism, its causes, linkages and obnoxious nexus. Also suggest measures required to be taken to eradicate the menace of terrorism. **(2021)**